

Hotel Market Overview for the City of Boulder

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- HVS International is the largest global consulting and services organization focused on the hotel, restaurant, timeshare, gaming, and leisure industries.
- Established in 1980, HVS performs more than 5,000 assignments per year for virtually every major industry participant.

Current Industry Development Trends

- Total new construction across all sectors is up 45% over last year according to PWC
- The hotel pipeline is strong and getting stronger
- Construction costs have risen over 40% since 2005



New Construction Pipeline

The New Construction Pipeline (1st Quarter 2006)					
Chain Scale	Under Construction Projects	Rooms	Starts 12 Months	Next 12 Months	Rooms
Luxury	21	4,497	21		7,682
Upper Upscale	60	23,378	42		11,712
Upscale	208	25,155	328		38,716
Midscale w F&B	59	4,592	136		3,974
Midscale w/o F&B	396	33,952	721		61,861
Economy	42	2,967	85		6,063
Independents	141	20,566	232		41,163
Subtotal	927	115,107	1,565		181,171
Casinos	36	15,222	19		14,359
Total Industry	963	130,329	1,584		95,530

The New Construction Pipeline (1st Quarter 2005)					
Chain Scale	Under Construction Projects	Rooms	Starts 12 Months	Next 12 Months	Rooms
Luxury	9	2,243	9		2,359
Upper Upscale	42	12,398	45		13,437
Upscale	161	20,327	236		27,037
Midscale w F&B	70	5,334	84		8,232
Midscale w/o F&B	290	24,561	454		38,510
Economy	38	2,473	94		7,175
Independents	77	12,698	134		25,578
Subtotal	687	80,034	1,056		122,328
Casinos	21	12,519	14		10,273
Total Industry	708	92,553	1,070		133,051

Source: Lodging Hospitality July 15, 2006

Largest Hotels in the Boulder Area

Rank	Hotel Name	No. of Rooms	Year Built
1	Omni Interlocken Resort	390	1999
2	The Westin Westminster	375	2000
3	Millenium Harvest House Boulder	277	1958
4	Renaissance Suites at FlatIron	232	2002
5	Radisson Hotel & Conference Center	222	1983
6	St. Julien Hotel & Spa	201	2004
7	Doubletree Hotel Denver - Boulder	180	1984
8	The Boulder Outlook Hotel & Suites	162	1973
9	Hotel Boulderado	160	1908
10	Boulder Marriott	157	1997

Source: Boulder County Business Report



Boulder Hotel Properties Report

Name of Establishment	City & State	Zip Code	Aff Date	Open Date	Rooms
Millennium Hotels Harvest House Boulder	Boulder, CO	80302	Apr 2001	Jun 1959	269
Hotel Boulderado	Boulder, CO	80302	Jan 1909	Jan 1909	160
Homewood Suites Boulder	Boulder, CO	80303	Jan 1991	Jan 1991	112
Courtyard Boulder	Boulder, CO	80301	Aug 1988	Aug 1988	149
Residence Inn Boulder	Boulder, CO	80301	Jan 1986	Jan 1986	128
Marriott Boulder	Boulder, CO	80302	May 1997	May 1997	157
Westin Westminster	Westminster, CO	80020	Apr 2000	Apr 2000	369
Omni Interlocken Resort	Broomfield, CO	80021	Jul 1999	Jul 1999	390
Renaissance Boulder Suites @ Flatiron	Broomfield, CO	80021	Oct 2002	Oct 2002	232
Preferred St Julien Hotel & Spa	Boulder, CO	80302	Feb 2005	Feb 2005	201

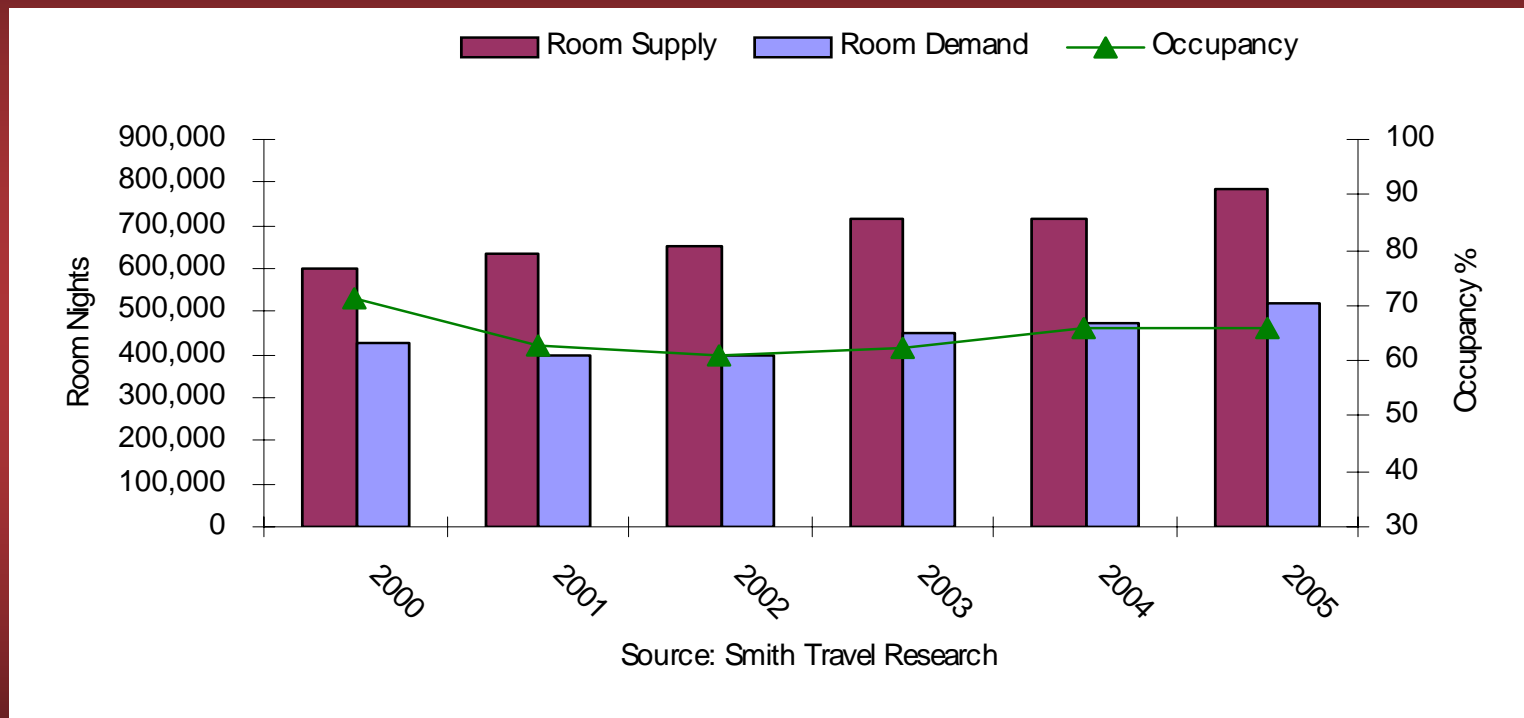


Boulder Current Industry Trends

	2000	2001	2002	2003	2004	2005	Year-to-Date Through February		Average Annual Compounded Change: 2000-2005
							2005	2006	
Average Daily Room Count	1,643	1,734	1,792	1,966	1,966	2,150	2,061	2,167	
Available Room Nights	599,700	632,910	654,254	717,590	717,590	784,724	121,622	127,853	
Change	—	5.5 %	3.4 %	9.7 %	0.0 %	9.4 %	—	5.1 %	5.5 %
Occupied Room Nights	426,347	396,727	398,093	448,351	472,117	516,957	76,841	72,124	
Change	—	(6.9) %	0.3 %	12.6 %	5.3 %	9.5 %	—	(6.1) %	3.9 %
Occupancy	71.1 %	62.7 %	60.8 %	62.5 %	65.8 %	65.9 %	63.2 %	56.4 %	
Average Rate	\$125.50	\$132.08	\$122.62	\$114.92	\$114.94	\$128.94	\$134.30	\$124.31	
Change	—	5.2 %	(7.2) %	(6.3) %	0.0 %	12.2 %	—	(7.4) %	0.5 %
RevPAR	\$89.22	\$82.79	\$74.61	\$71.80	\$75.62	\$84.94	\$84.85	\$70.13	
Change	—	(7.2) %	(9.9) %	(3.8) %	5.3 %	12.3 %	—	(17.4) %	(1.0) %

Source: Smith Travel Research

Boulder Current Industry Trends





Boulder Area Market Forecast

- 2005
 - 66% Occupancy
 - \$129 Average Rate
- 2006
 - 67% Occupancy
 - \$140 Average Rate
- 2007
 - 69% Occupancy
 - \$145 Average Rate



Boulder Day of Week Occupancy Analysis

Occupancy (%)								
	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Mar - 05	38.2	55.3	62.9	62.4	57.0	48.0	47.7	53.8
Apr - 05	48.0	72.3	80.3	83.4	70.2	55.7	50.7	65.0
May - 05	48.9	65.2	75.5	77.8	75.9	68.2	68.9	68.1
Jun - 05	56.7	85.1	93.3	89.7	83.1	67.3	65.2	77.8
Jul - 05	62.4	75.9	80.3	83.1	79.4	72.0	75.7	75.0
Aug - 05	55.5	79.0	87.3	87.9	88.0	79.8	80.8	80.2
Sep - 05	56.6	69.4	79.0	77.6	67.0	67.1	72.1	69.6
Oct - 05	44.7	67.5	82.5	80.6	73.9	68.6	69.3	68.7
Nov - 05	33.2	54.6	63.9	71.6	66.6	58.4	52.7	58.0
Dec - 05	30.8	51.4	53.5	53.0	51.4	45.7	47.1	47.6
Jan - 06	35.9	55.0	69.6	71.2	59.7	48.0	49.7	55.4
Feb - 06	38.7	58.8	71.1	73.9	62.6	49.9	47.9	57.5
Year Avg	46.0	65.9	74.7	76.2	69.2	60.7	60.7	64.8

Boulder Area Market Segmentation

- Commercial 50%
- Meeting and Group 33%
- Leisure 17%

Boulder Hotel Demand Segmentation

- Commercial demand emanates from various businesses in and around the City of Boulder
- University demand emanates from CU
- Leisure demand emanates from Pearl Street/Downtown
- Meeting demand emanates from all of the above



Boulder Construction Track

Project Title	Construction Cost	# of Units	Project Phase	City	# of Stories	Address	Target Start Date	Target Completion Date	Owner Name
Marriott Hotel	\$10,000,000	282	Planning	Westminster	8	103rd Ave & Church Ranch Rd			Elkin Johnson Group
Holiday Inn Express - Sitework	\$3,500,000	84	Underway	Longmont	4	1355 Dry Creek Dr	1/15/2006	4/15/2007	Lamont Companies
Courtayrd by Marriott	\$8,000,000	155	Planning	Broomfield	0	I-25 & W 120th			Urban Frontier LLC
Residence Inn by Marriott	\$8,000,000	156	Planning	Broomfield	0	I-25 & W 120th			Urban Frontier LLC

Hotel Development Dynamics in Boulder



Barriers to Entry

- Land Availability
- Land Cost
- Time Constraints
- Neighboring Growth
- Strong Residential Real Estate Market



Building Incentives

- Good Hotel Economic Performance
- Lack of Product Diversity
- Well Rounded Demand Base
- Strong Residential Real Estate Market

Focused Service Hotel

- Based on current land sizes and FAR, we assumed 170 guestrooms
- Occupancy would most likely fall in the 75 to 80% range with average rates over \$150.
- Cost to Build would exceed \$120,000 per key but should be less than \$175,000 per key
- Hotel would require minimal restaurant space and might function with the Tea House as its additional restaurant.
- Hotel would require minimal meeting space apart from adjacent conference center
- More efficient operation would increase feasibility assuming significant land costs are mitigated

Questions?

Luxury Hotel

- Based on current land sizes and FAR, we assumed 120 guestrooms
- Occupancy would most likely fall in the 70 to 80% range with average rates over \$200.
- Cost to Build would exceed \$200,000 per key and could be as high as \$300,000 per key
- Hotel would require three-meal restaurant and likely additional fine dining restaurant
- Hotel would require significant meeting and banquet space apart from adjacent conference center
- Residential development may also be required and would certainly be requested

Hotel Financing Options

Comparison of Hotel Financing Approaches

Comparison of Hotel Financing Approaches

Issue	Public/Private Partnership	Public Financing
Ownership	A privately owned single purpose entity, typically a limited liability corporation ("LLC") holds title to the hotel. This owner is responsible for engaging the developer and operator.	A publicly controlled entity, that may be an agency of the sponsoring municipality or a not-for-profit corporation, holds title to the hotel. Through the ownership entity, the sponsoring municipality is responsible for engaging the hotel developer and operator. Various forms of non-profit ownership are possible under IRS rules, including a "63-20 corporation" under Section 115 of the IRS code or a 501(c)(3) under IRS Ruling 57-128.
Operations	A hotel management company is engaged to operate the hotel. It may be managed by a major hotel brand company (e.g. Marriott, Hilton, Hyatt or Starwood) or by a third party operator with a franchise agreement to brand the property. Compensation is typically based on a percentage of gross revenue, net operating income or both.	A hotel management company is engaged to operate the hotel under a Qualified Management Agreement ("QMA") that conforms to Internal Revenue Service regulations. The maximum length of a QMA is 15 years, which is shorter than the term of operating agreements for privately owned hotels. Compensation to the operator must be on a fixed fee basis rather than as a percentage of revenue or net operating income. Most publicly financed hotel deals have been managed by a major hotel brand company. Franchise agreements are less common because hotel brands are reluctant to agree to fixed franchise fees as is required in a QMA.
Financing	Privately owned hotels are financed with a mix of debt and equity. In the current markets, lenders will only provide debt for 50% to 60% of the project cost, and equity investors must provide the balance of funding. Typically the developer obtains a variable rate construction loan which is later taken out with a permanent financing at the time hotel operations stabilize. Equity investment is obtained by selling stock in the LLC, and the development group may have a controlling interest in the LLC. In public/private partnerships a governmental entity may also provide an equity contribution to the project with little or no expectation of getting a cash return on that equity investment.	Publicly owned hotels are all debt financed through the issuance of municipal bonds. Some of the bonds may be "non-recourse." That is, the revenues of the project are the only source of payment and credit for the bondholders. To be rated as investment grade, debt service coverage on non-recourse debt must exceed 2.0 times debt service. Typically, net operating income is not sufficient to secure enough non-recourse debt to pay for the project. Consequently, the sponsoring municipality may provide credit enhancement. This usually involves some form of pledge to pay debt service in the event that hotel revenues are insufficient. The development team may be required to hold some subordinated debt, but this debt is typically less than 10% of the total financing.

Hotel Financing Options (continued)

Comparison of Hotel Financing Approaches

Comparison of Hotel Financing Approaches

Issue	Public/Private Partnership	Public Financing
Cost of Funds	Interest rate levels on permanent debt may range from 8% to 10% in the current financial markets. Private equity investors may require from 10% to 15% cash return on equity.	In today's financial markets, non-recourse debt carries interest rate levels of 7% to 7.5%. Interest rate levels on the credit enhanced debt depends on the credit of the sponsoring municipality. A AAAA-rated municipality may achieve an interest rate level of 4.5 to 5.5%. Subordinated debt carries negotiated interest rate levels in the range of 9% to 12%. Consequently, the cost of funds for a publicly developed hotel are substantially less than from privately financed hotels.
Form of public subsidies	Public subsidies may take the form of land contributions, infrastructure and parking development, tax abatements, tax turn backs, and cash subsidies.	As in public/private partnership deals, public subsidies may take the form of land contributions, infrastructure and parking development, tax abatements, tax turn-backs, and cash subsidies. In addition, credit enhancing debt is a form of local public subsidy. Typically one objective of a public financing is to reduce the level of public equity contribution as compared to a public/private partnership.
Claim on income and the asset.	The investors in the LLC typically claim the residual project income from operations and the sale of the asset. Municipalities may negotiate a share of project income in exchange for providing public subsidies. Developers often negotiate a "preferred return."	The sponsoring municipality owns the residual project income from operations and the sale of the asset.

Source: HVS

Recent and Potential Public/Private Hotel Developments in Major Cities

Last updated

6-Oct-06

City	Hotel Brand	Number of Guest Rooms
Anaheim, CA	Disney	750
Austin, TX	Hilton	800
Baltimore, MD	Hilton	750
Bay City, MI	Doubletree	150
Cambridge, MD	Hyatt	400
Chesapeake, MA	Hyatt	400
Coralville, IA	Marriott	250
Denver, CO	Hyatt	1,100
Houston, TX	Hilton	1,200
Lombard, IL	Westin	500
Myrtle Beach, SC	Sheraton	404
Omaha, NE	Hilton	450
Overland Park, KS	Sheraton	412
Phoenix	Sheraton	1,000
Rocky Gap St. Park, MD	Independent	220
Sacramento, CA	Sheraton	500
San Antonio, TX	Hyatt	1000
St. Louis, MO	Marriott	1,081